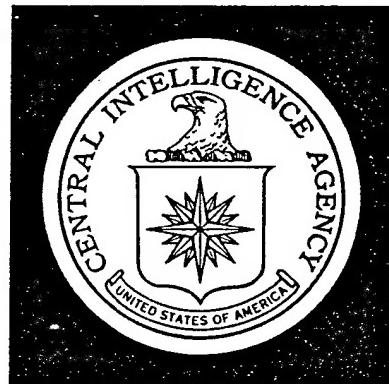


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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

*Developments
in the International Financial Position
of the USSR in 1966*

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

INTELLIGENCE REPORT

Developments
in the International Financial Position
of the USSR in 1966

Summary

The USSR ran a substantial deficit in its hard currency transactions in 1966, amounting to over \$370 million. Instead of drawing down its gold reserves, as it has done in recent years, the USSR increased its short-term borrowing and reduced its hard currency holdings. Had the Soviet leaders foreseen the excellent 1966 wheat harvest, they would probably have spent less for wheat than the approximately \$500 million actually expended, and it is even possible that the combined gold and hard currency position of the USSR would have improved for the first time in a number of years. Trade plans for 1967 suggest that the USSR hopes to reduce or eliminate its hard currency deficit in 1967.

Note: This report was produced by CIA. It was prepared by the Office of Economic Research: the estimates and conclusions represent the best judgment of the Directorate of Intelligence as of September 1967.

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Hard Currency Balance of Trade

1. In 1966 the hard currency deficit in Soviet commodity trade, as shown in the table, amounted to an estimated \$320 million. This was slightly greater than the deficit of \$270 million in 1965, but well below the high of \$550 million in 1964, when the USSR was forced to spend several hundred million dollars for wheat as a result of the 1963 harvest failure.

Soviet Commodity Trade in Hard Currency
1959-66

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1959	482	564	-82
1960	697	994	-297
1961	823	1,026	-203
1962	876	1,132	-256
1963	913	1,247	-334
1964	980	1,534	-554
1965	1,258	1,527	-269
1966	1,399	1,720	-321

2. Soviet imports paid for in hard currency in 1966 rose by \$190 million to an estimated \$1,720 million. The USSR apparently eased the restrictions it had imposed during the agricultural crisis of 1963 on imports of industrial goods from Western Europe and Japan and allowed them to rise by perhaps \$100 million. Deliveries of Western wheat, based in part on contracts concluded in the previous year, are estimated to have increased by some \$60 million over 1965, and additional purchases of rubber, wool, and other commodities from non-European countries accounted for the remaining expansion in Soviet imports from hard currency areas.

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3. Soviet exports paid for in hard currency rose by some \$140 million to an estimated \$1,400 million. Exports of petroleum increased by about 18 percent, and exports of cotton grew as a result of large sales to Italy, Japan, and the United Kingdom following a good domestic crop in 1965. Exports to Western Europe and Japan increased by about \$200 million, but those to the less developed countries, notably Indonesia and Argentina, declined.

Balance of Payments

4. The USSR not only suffered a \$320 million hard currency deficit from commodity trade in 1966, but also one of some \$50 million on other transactions (for freight, insurance, and the like). To finance the total deficit of \$370 million, the USSR obtained an estimated \$30 million in medium-term and long-term credit (net of repayments) to cover purchases of Western machinery and equipment. Gold sales, the chief Soviet method of deficit financing in recent years, totaled an estimated \$65 million, and sales of other precious metals brought in an estimated \$50 million. The remaining deficit of \$225 million must therefore have been financed by short-term borrowing and/or a reduction in holdings of hard currency.

5. The estimate of \$225 million is derived from figures which are themselves estimated and is subject to large margins of error. It seems quite clear, however, that the deterioration in the USSR's short-term position in 1966 was greater than the rise in its gold reserves, which was about \$100 million. It is also clear that in 1966 the USSR relied to an unusual extent on foreign currency holdings and short-term borrowing.

6. The available evidence on the hard currency position of the USSR in 1966 corroborates the balance-of-payments analysis. Reports from the Bank for International Settlements and the

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Bank of England show that the combined net position* of the USSR and the Eastern European Communist countries in Euro-dollars** and sterling dropped substantially in 1966. The Soviet and Eastern European position in Euro-dollars was down \$60 million to minus \$310 million. In sterling the net position of the group fell by the equivalent of about \$115 million to minus \$210 million. As the USSR is the major holder and borrower of Western currency in Eastern Europe, the decline in the combined position of these countries almost certainly reflected a decline in the Soviet position.

Prospects

7. The USSR is believed to have sold only negligible amounts of gold during the first seven months of 1967. Together with Soviet selling patterns since 1963, this suggests that the current Soviet leadership is no longer willing to rely heavily on gold sales to finance its hard currency payments. Its policy is apparently to part with gold only to finance unplanned imports as it did following the poor harvests in 1963 and in 1965. If so, then the USSR must either resort to Western money markets for short-term funds or avoid hard currency payments deficits that cannot be financed through medium-term or long-term credits.

8. One sign that the USSR plans to follow the latter course is provided by Soviet trade plans for 1967. These plans indicate no change, compared with 1966, in the total volume of trade with the Free World. Although no direct evidence is available, it is also likely that the total volume of trade in hard currencies is not scheduled

* Figures for the USSR alone are not available.

** The Bank for International Settlements defines a Euro-dollar as one that has been acquired by a bank outside the United States and used for lending ultimately to nonbank borrowers anywhere in the world.

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to grow, for such trade constitutes about 55 percent of the total Soviet trade with the Free World. If, as is likely, Soviet planners expect to increase exports paid for in hard currency, as they have done in recent years, then both a cutback in imports paid for in hard currencies and a reduction of the trade deficit in hard currencies are implied.

9. One import likely to be reduced is wheat. At present, the only wheat imports known to be planned for 1967 are those under a 3-year agreement with Canada calling for 9 million long tons over the period 1 August 1966 - 31 July 1969. Imports in 1967 probably will be 3 million tons at most. If this is all that the USSR buys, hard currency expenditures for wheat will drop by about \$300 million in 1967.

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